

METLIFE CORPORATE INTERNAL AUDIT

**REPORT 98-94001
DECEMBER 4, 1998**

**AUDIT OF POLICY ILLUSTRATIONS
• COMPLIANCE**

METLIFE CONFIDENTIAL

1

CONFIDENTIAL

ENVIRONMENT

- The NAIC Model Regulation (Model Reg.), enacted in January, 1997, established rules which:
 - provide illustration formats and standards, and specify required disclosures;
 - ensure that illustrations are understandable and do not mislead;
 - require the Illustration Actuary to provide actuarial certifications of the illustration values to the state insurance commissioners and document the certification process;
 - require the Responsible Officer to certify that illustration formats comply with the regulation and that sales representatives have been provided with the expense allocation method used by the Company.
- Though 31 states have adopted the Model Reg. (or a version of it), MetLife applies it to all states and all life policies, except Genuine Life, SFL Guaranteed Term, Voluntary Permanent Life, and ULIL.

SCOPE

We reviewed:

- illustrations provided to policy applicants during the sales process
- follow-up on outstanding (i.e., unsigned or inaccurate) illustrations
- software used by account representatives to produce illustrations
- documentation of illustration updates
- data used in the illustration scale determination

OPINION/CONCLUSION

There are significant concerns with the controls over the following areas of the sales illustration process:

- the Company does not ensure that all account representatives are using the most current version of sales illustration software;
- signed illustrations are not reviewed to ensure that illustrations used are current or that the preparation date of the signature page is consistent with the other pages;
- follow-up to ensure the receipt of outstanding illustrations is not effective;
- changes made to illustration software, and the authorization of those changes, were not always documented.

Management had identified the issue of outstanding illustrations prior to the start of the audit, and is in the process of developing and implementing solutions to this issue and the others identified.

METLIFE CONFIDENTIAL

CONFIDENTIAL

BUSINESS ISSUES/MANAGEMENT ACTION PLANS

Out-of-Date or Incomplete Illustrations

1. The Company does not ensure that all account representatives are using the most current version of sales illustration software. As a result, illustrated policy values provided to the customer at the point of sale may not be accurate. There are no records maintained of those account representatives who do not dial in to receive the updates, nor does the Company follow-up with them. Audit tests identified cases where illustrations were used after their Law Department (LD) number had expired and where multiple versions of illustration software for the same product were being used concurrently.

Management Action Plan: In order to ensure that only valid versions of illustration software is used, newer versions of illustration software will contain a feature that will disable them after the expiration date.

Target Date: June 30, 1999

Accountability: Bob Dehais, Assistant Vice-President, Individual Business

2. Signed illustrations are not reviewed to ensure that illustrations used are current or that the preparation date of the signature page is consistent with the other pages. Audit tests identified situations where accepted illustrations:
 - had expired prior to preparation,
 - contained signature pages, the preparation dates of which were prior to the preparation dates of the other illustration pages,
 - consisted only of the signature page.

Management Action Plan: New Business Center personnel have been instructed to review incoming illustrations to ensure that:

- all pages of the illustration were produced on the same day
- the illustration was not produced after the LD expiration date.

Follow-up on Outstanding Illustrations

3. Follow-up on outstanding illustrations is not effective in ensuring the timely receipt of accurate and signed illustrations for all policies. A review of the Illustration Signature Browse file as of 10/2/98 showed over 11,000 cases outstanding longer than 6 months. While the New Business Centers recently began to follow-up at the branch, regional, and territorial levels, there are currently no financial penalties for account representatives that do not comply with Company guidelines regarding illustrations.

METLIFE CONFIDENTIAL

3

CONFIDENTIAL

Management Action Plan: A 3-part strategy is being pursued with respect to outstanding illustrations. Our Recovery program has identified cases issued between 1/96 and 8/98, and has worked with the Law Department to determine which cases need to be pursued with the customer. Efforts are underway to produce basic illustrations for these customers. Our Interim program requires NBC directors to follow up directly with sales management on aging cases. We plan to introduce a program which will:

- withdraw commissions if a signed sales illustration reflecting the policy as issued is not received within 60 to 90 days following policy issue
- allow for direct mailing of the illustration to the customer.

Target Date: June 30, 1999

Accountability: Richard Anderson, Vice-President, Individual Business

4. The Illustration Signature Browse file does not accurately reflect the total number of cases for which illustrations are outstanding.

- Cases for which the issued policies were subsequently canceled must be manually canceled from the file. A test of 50 cases appearing on the file identified 10 (20%) which were no longer active and no longer requiring illustrations.
- A review of 90 new business cases issued in 1998 showed 17 (19%) with discrepancies ranging from missing, incomplete, or expired illustrations to illustrations with incorrect data with regard to the policy's rating class or the insured's age at issue. Only 3 of these cases appeared on the Illustration Signature Browse file as still being outstanding.

Management Action Plan: Individual Business has asked Information Technology Services (ITS) to address the need to automatically remove cases from the browse when the cases go not taken or are free looked. The same would hold true when the case goes into another status which would eliminate the need to pursue an illustration. ITS is in the process of developing project charters for this initiative and others associated with illustrations. While basic agreement has been reached that we need to provide electronic support for illustration control, the initiatives cannot be included on the IT project agenda until the project charters are approved and the initiatives are prioritized as part of the overall IB/IT agenda.

Target Date: December 31, 1999

Primary Accountability: Mike Anglin, Manager, Information Technology Services

Secondary Accountability: Richard Anderson, Vice-President, Individual Business

METLIFE CONFIDENTIAL

4

CONFIDENTIAL

Documentation of Changes

5. **Documentation supporting changes to factors and illustration software specifications is not consistently maintained. In addition, documented authorizations for such changes were not always available.**

Management Action Plan: Because all formulae, rates and values changes must be implemented both on the illustration system and on the administrative system, Customer Service and Field Support area of Information Technology Services will be responsible for the development and maintenance of detailed product specifications used to determine the calculations of rates and values. To meet that objective, in the month of November, two new business analysts were hired to assume this responsibility.

Target Date: March 31, 1999

Accountability: George Foulke, Vice President, Information Technology Services

For many years, Individual Business has had an informal procedure regarding the documentation for authorizations for changes and the release of the illustration software. It is agreed that by March 31, 1999 a formal procedure will be in place whereby a signed authorization will be maintained for each new release of life illustration software. This release will be signed by the Responsible Illustration Officer or his designee and by the Responsible Illustration Actuary or his designee.

Target Date: March 31, 1999

Accountability: Bob Dehais, Assistant Vice-President, Individual Business

METLIFE CONFIDENTIAL

5

CONFIDENTIAL

DISTRIBUTION

William Toppeta, Sr. Executive Vice-President, Individual Business	10A
Dave Levene, Executive Vice-President, I.B. Financial Management	10A
Judy Weiss, Executive Vice-President and Chief Actuary, Actuarial	3D
Joseph Jordan, Sr. Vice-President, I.B. Marketing	5H
Harold Leff, Vice-President and Senior Actuary, I.B. Financial Management	5H
Ann Kallus, Vice-President and Actuary, Actuarial	3DE
Richard Anderson, Vice-President, I.B. Customer Support Services	Bridgewater
George Foulke, Vice-President, Information Technology Services	Bridgewater
Elliot Reiter, Vice-President, I.B. Financial Management	Bridgewater
Robert Dehais, Assistant Vice-President, I.B. Marketing	Bridgewater
Larry DeGaetano, Assistant Vice-President, I.B. Financial Management	Bridgewater
Alan Mandell, Assistant Vice-President, Information Technology Services	Bridgewater
Dion Rumsey, Assistant Vice-President, Business Services Group	9C
Josette Campo, Internal Control Consultant, I.B. Financial Management	Bridgewater
Jon Danski, Sr. Vice-President and Controller, Corporate Controller's Dept.	10H
John Welch, Vice-President and General Auditor, Auditing	10E
James Gould, Vice-President, Auditing	10D
Don Anderson, Vice-President, Auditing	10E
Tom Luckey, Assistant Vice-President, Auditing	10D
Marc Cherubin, Managing Consultant, Auditing	10F

Richard Meyerowich, Partner

Deloitte & Touche

This audit was performed by Eric Davies and John Leonardi.

John Leonardi
 Managing Consultant
 Audit Department

CONFIDENTIAL

December 4, 1998

METLIFE CONFIDENTIAL